

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 PM-05 NSC-05 SP-02 SS-15 CIAE-00  
DODE-00 INR-07 NSAE-00 PA-01 USIA-06 PRS-01 EB-08  
COME-00 OMB-01 TRSE-00 /062 W  
-----013782 011207Z /53

R 010325Z SEP 77

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 4336

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ALSO FOR COMMERCE/CAGNE

E.O. 11652: N/A

TAGS: EGEN SOCL IR

SUBJ: IRAN'S INFLATION AND REAL ESTATE POLICIES

REF A. TEHRAN A-106 B. TEHRAN 7503

1. IMPLEMENTATION OF "INCOMPLETE AND VACANT HOUSE (TAKEOVER) BILL," PASSED BY PARLIAMENT AUGUST 30. AND AS-YET -UNDECLARED REGULATIONS OF SHAH'S PRINCIPLE 18 ON "FLEXIBLE" CEILING ON LAND PRICES (REPORTED REF B) OFFER REALISTIC POSSIBILITY FOR NEAR TERM MODERATION OF OVERALL INFLATION WHICH HAS TO DATE BEEN FUELED HEAVILY BY THE HOUSING/LAND COST COMPONENT. IMMEDIATE EFFECT OF THESE ACTIONS IS VIRTUAL STAGNATION OF LAND AND REAL ESTATE TRANSACTIONS AND A HIGH DEGREE OF UNCERTAINTY WHICH IS PERMEATING OVERALL BUSINESS CLIMATE. NONETHELESS, EMBASSY DOES NOT ANTICIPATE THAT THE EFFECTS OF THESE ACTIONS ON OVERALL CONSUMER PRICES WILL BE FELT SUBSTANTIALLY THIS IRANIAN YEAR AND MAINTAINS ITS FORECASTS OF AVERAGE CONSUMER AND WHOLESALE INFLATION REPORTED IN REF A, I.E. 14 TO 18 AND 12 TO 15 PERCENT RESPECTIVELY. PRINCIPAL UNKNOWN IS WHETHER THE CONSUMPTION (DEMAND) EFFECT FROM THE ASSUMED DECLINE IN PERSONAL INCOME DUE TO REDUCED LIMITED OFFICIAL USE

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EMPLOYMENT IN INDUSTRY (CURRENT POWER SHORTAGE) AND CONSTRUCTION WILL BE GREATER OR LESS THAN THE EFFECT ON SUPPLY FROM REDUCED PRODUCTION (UNLESS COMPENSATED IN THE SHORT-TERM BY INCREASED IMPORTS).

2. THE LONG-DEBATED LAW DEALING WITH THE FACTOR OF UNOCCUPIED OR INCOMPLETED HOUSING UNITS PASSED PARLIAMENT

AUGUST 30. THIS ACT AUTHORIZES MUNICIPALITIES TO OCCUPY VACANT OR INCOMPLETE STRUCTURES AND RENT THEM OUT IF LANDLORDS FAIL TO TAKE REMEDIAL ACTION WITHIN SPECIFIED TIME LIMITS. (THERE ARE A REPORTED 60,000 VACANT BUILDINGS IN TEHRAN ALONE.) RENTS WILL ACCRUE TO OWNER AFTER, IN CASE OF NEED TO COMPLETE A STRUCTURE, GOVERNMENT'S COST ARE MET. LANDLORDS WILL RECEIVE LOANS AND MATERIALS TO ASSIST COMPLETION OF BUILDINGS. PRESS REPORTS STATE ACT REQUIRES ALL LANDLORDS TO NOTIFY MUNICIPALITY OFFICES CONCERNING STATUS OF STRUCTURE; FAILURE TO DO SO ELIMINATES ARBITRATION ACCESS TO THE ACT'S ENFORCEMENT BODIES.

3. QUANTITATIVE EVIDENCE HERE IS CHARACTERIZED BY CONSIDERABLE TIME LAG AS WELL AS RELIABILITY. THUS EMBASSY'S VIEWS RELY CHIEFLY ON CLOSE CONTACTS WITH APPROPRIATE EXPERTISE. A "SURVEY" REPORTED IN THE PRESS AUGUST 29 AND AN AUGUST 30 EMBASSY SURVEY OF 15 LOCAL US BANK REPRESENTATIVES SUBSTANTIATE A VIRTUAL FREEZE IN LAND TRANSACTIONS OWING TO UNCERTAINTIES OF GOI LAND/HOUSING POLICIES AND INTERVENTIONS. THE SURVEY RESULTS REPORTED AUGUST 29 MENTIONED A 20 TO 30 PERCENT DROP IN LAND PRICES IN THE LAST MONTH, AN UNUSUALLY LOW NUMBER OF LAND TRANSACTIONS (AND THOSE CHIEFLY RELATING TO PLOTS FOR WHICH CONSTRUCTION PERMITS HAD ALREADY ISSUED) AND "COMPLETE INACTIVITY" IN TRANSACTION OF HOUSES AND APARTMENTS. MAJORITY OF BANKERS PERCEIVED RECENT LEVELING OR DECLINE IN LAND LIMITED OFFICIAL USE

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COSTS AND APARTMENT RENTALS.

4. AN EXPANSION OF TEHRAN CITY LIMITS, HERETOFORE VIEWED AS A CLOSED ISSUE BUT NOW A POSSIBILITY, WOULD HAVE CONFLICTING SOCIAL AND INFLATIONARY RESULTS. THE CURRENT CITY AREA OF 215 SQ. KM. WAS SET IN 1969 AND POPULATION PRESSURE COUPLED WITH GENERAL UNAVAILABILITY OF SERVICES OUTSIDE THE CITY PRODUCED THE LAND SPECULATION AND PRICE SPIRAL OF RECENT YEARS. EXPANSION OF CITY LIMITS OFFERS RELIEF TO TEHRAN'S HOUSING SHORTAGE AND THE PRICE PROBLEM BUT WOULD CONCURRENTLY INDUCE FURTHER MIGRATION TO TEHRAN, INCREASE DEMANDS FOR MUNICIPAL SERVICES AND PRODUCE INFLATIONARY EFFECTS ON CONSTRUCTION WAGES AND MATERIALS FROM THE ASSUMED RESULTANT CONSTRUCTION BOOM. TEHRAN COUNCIL HAD SEVERAL LONG SESSIONS THIS WEEK CONSIDERING EXPANSION QUESTION.  
SULLIVAN

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## Message Attributes

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